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2012-2013 Departmental Audit Committee Annual Report

March 2013



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Daniel Jean
Deputy Minister
Canadian Heritage

It is with both pleasure and regret that I present the fifth annual report of the Departmental Audit Committee (DAC). It is also my final report. Pleasure because the three-member committee started from scratch over five years ago to build a capacity to assist the Deputy Minister and the Department to manage financial resources. Senior Canadian Heritage officials report that the efforts have been successful.

Regret because I leave behind two highly committed and competent members in Nola Buhr and Robert Martin. No chair, no DAC committee and no senior departmental officials could be better served.

I also leave behind a number of devoted, determined and professional public servants from the current and former Deputy Ministers down to the support staff at Canadian Heritage. I want to highlight the work of Kimberly Hogan who served the Committee from its inception with dexterity in all things, integrity and a very high level of professionalism.

The annual report summarizes the activities of DAC and provides our assessment of the areas under the Committee's responsibility. As in the past, the report was produced by all three members playing an active role in shaping its content.

Given that this is my final report as Chair, I would like to take the opportunity to share personal thoughts on the state of public sector management in the Government of Canada. I hasten to stress, with more than usual emphasis, that these views are mine and mine alone. I did not consult other DAC members or senior Canadian Heritage officials in formulating them. Further, no one should assume, even for a moment that they agree with my views.

I have, over the past five plus years, witnessed the work of many dedicated and hard working public servants. This is not to suggest, however, that all is well with the Canadian public service. Indeed, I see many challenges.

We have made it increasingly difficult for managers to manage in government. Successive governments have added one accountability and transparency requirement on top of another. Looking at them separately, one can see that they may well hold merit. However, when you add them all up, one sees an extremely heavy reporting burden that appears to be growing heavier day by day. One senses that managers spend more time managing processes and reporting requirements than managing activities, the delivery of public services or even human and financial resources. The various reporting requirements appear to

have become an end in themselves, its own proper field a specialization rather than means of supporting managers and their work. On occasions, I felt that managers were more preoccupied with managing a process and reporting requirements to central agencies on risks management rather than actually managing risks.

There is no need to list here the various accountability and transparency requirements that managers must attend to virtually on a daily basis. One only needs to consult the web sites of the Treasury Board Secretariat, the Office of the Comptroller General and the growing number of officers of Parliament, to gain an appreciation of the various reporting and accountability requirements.

I would like to single out one requirement – the Management Accountability Framework (MAF). It is a moving target and it has been altered, at times substantially, since it was first introduced. It has also been revised every year since the Canadian Heritage DAC was created. In brief, it is hardly a model of consistency and stability. It is no exaggeration to write that the process now requires MAF specialists to feed its ever changing reporting requirements. I suspect that if line departments were in a position to assess the performance of central agencies in managing MAF, central agencies would not score well. My sense is that some managers throughout government have come to regard MAF as a process that has to be constantly fed with paper and data rather than a tool to help them manage.

I would like to conclude with a plea that central agencies undertake a thorough review of the various accountability and transparency requirements. I suspect that they would discover that they impose too high a reporting burden and that they are also very costly to manage. Public servants now spend too much of their time dealing with oversight requirements rather than delivering public services and shaping new policies.

The above review should be part of a broader effort to give managers and their staff a greater sense of ownership of their work. This, in my view, should be the central focus of all future efforts to reform the public service.

I served as a senior public servant in Ottawa in the mid-1980s and my view is that we had a greater sense of both responsibility and accomplishments than is the case today. Pride in one's work and job satisfaction come with an ability to make a difference and, at the end of the day, to have a sense of accomplishment in serving fellow citizens. That has been the essence of public service down through the ages and it remains true today. This, more than anything else, and certainly more than remuneration, separates the work of the public sector from other sectors. It is unlikely that we will be able to rediscover the "vocation" in public service by placing a shadow on the shoulders of public servants and their work through various accountability, transparency and oversight requirements.

I would like to conclude by expressing my gratitude to senior Canadian Heritage officials and the Treasury Board for giving me the opportunity to serve.

Sincerely,

Original signed by: Donald J. Savoie, DAC Chair

Cc: Associate Deputy Minister
Chief Financial Officer
Chief Audit and Evaluation Executive
Audit Committee Members

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1.0 Introduction

The Committee provides objective advice and recommendations to the Deputy Minister regarding the sufficiency, quality and results of assurance on the adequacy of the Department's risk management, control and governance frameworks. To provide this advice, the Committee relies substantially on the work of the Audit and Assurance Services Directorate (AASD). As additional input, the Committee also reviewed the Letter of Representation prepared by the office of the Chief Financial Officer, in particular as it relates to internal controls and financial reporting.

2.0 Committee Activities

2.1 DAC Meetings

The Committee held four regular meetings and a teleconference dedicated to the financial statements during the 2012-2013 fiscal year.

- June 13-15, 2012 (including one day working session for DAC annual report);
- August 14, 2012 (financial statements meeting via teleconference);
- October 11, 2012
- December 18, 2012; and
- March 26-27, 2013.

2.2 Core Responsibilities

The TB *Directive on Internal Auditing in the Government of Canada* outlines eight core responsibilities for the DAC. These are: values and ethics; risk management; management control framework and reporting; the Internal Audit Function; liaison with External Assurance Providers; follow-up on management action plans; financial statements and public accounts reporting; and accountability reporting.

2.3 Values and Ethics

The DAC reviews management policies and practices to promote public service values and to ensure compliance with laws, regulations, policies, and standards of ethical conduct.

At the October 2012 meeting, the Ombudsman presented the First Annual Report from the Office of Values and Ethics for information and an in-camera meeting with the Committee was held.

At the March 2013 meeting, the Committee met with the Ombudsman who provided the annual overview on values and ethics within PCH. He outlined how PCH leaders promote and visibly support Values and Ethics, the efforts made to move towards a mature Values and Ethics program and actions taken to conform to

Treasury Board Policy requirements. An in-camera meeting with the Committee was held.

The Committee is favourably impressed by the work done by the Office of Values and Ethics and benefitted from the excellent work carried out by the Office. We understand the Office is currently implementing a 2012-2014 multi-year action plan. We welcome opportunities to review the plan and to receive regular updates.

2.4 Risk Management

In June 2012, the Strategic Policy, Planning and Research Branch provided an update on the approach and key findings for the development of the 2012-15 Corporate Risk Profile (CRP). In October 2012, the 2012-15 CRP was presented to the DAC for information. We suggest that the three key risks identified in the Corporate Risk Profile should be more specific to the Departmental activities.

At the October 2012 meeting, the Strategic Policy, Planning and Research Branch provided an update on the approach and planning for the development of the Integrated Risk Management Framework (IRMF). In December 2012 the IRMF was presented to the Committee.

We note that the Department's CRP and IRMF have not been fully audited by internal audit. However, based on other audit activities, the CAEE noted, in his report, that there have been improvements in how programs identify key risks and establish mitigation strategies.

Senior management launched the Fraud Risk Management Assessment initiative to take a different perspective on fraud risk and ensure that all significant fraud risks are identified and assessed. It was found that the internal controls in place were effective and the results of the exercise proved insightful and had strong practical value to management. We also benefitted from this exercise and we strongly encourage the Department to approach risk management activity in a more focused way.

We note, with concern, that PCH commits substantial resources to the CRP and IRMF and to respond to various demands from central agencies, in a time of scarce resources.

2.5 Management Control Framework and Reporting

At the June 2012 meeting, the Financial Management Branch briefed the Committee on the Updated Internal Control over Financial Reporting (ICOFR) Framework as well as the Annual Plan on Internal Controls and the 2012-13 Financial Policies.

The CAEE Annual Report indicates that, overall, controls are functioning in an effective manner, though some improvements are suggested. Audit reports reviewed by DAC support this view as only minor control issues were identified.

Furthermore, with regard to ICOFR, we are pleased to note that almost all business processes are at level 4 on the PCH Internal Controls Maturity Framework where design effectiveness has been tested.

The committee would welcome a more regular update on internal control especially general control systems and infrastructure beyond financial reporting.

We are confident in the capacity of the current CFO to ensure financial management controls continue to be effective. He continues to serve DAC with competence and integrity

2.6 Internal Audit Function

2.6.1 Internal Audit Charter

During the year the Committee reviewed the *Canadian Heritage Internal Audit Charter*, suggested changes and recommended approval by the Deputy Minister. The Committee believes that this document complies with the Treasury Board *Policy on Internal Audit* and will continue to review the *Charter* periodically to ensure that it remains current.

2.6.2 Annual Risk-Based Audit Plan

The 2012-13 Risk-Based Audit Plan was approved in March 2012.

In October 2012, the Director of Audit and Assurance Services provided the mid-year update to the Committee on the progress and adjustments made in implementing PCH's Risk Based Audit Plan (RBAP) for 2012-13. This mid-year summary of progress against the Plan as well as potential adjustments to the Plan (and rationale) allows the Committee to assess on-going progress.

At the March 2013 meeting, the 2013-14 to 2015-16 RBAP was presented to the Audit Committee.

Internal audit engagements constitute the main deliverables of the Audit and Assurance Services Directorate. Seven engagements were presented to the Committee, six of which were planned in the RBAP.

There were three audit engagements:

- Internal Audit of Canada's Participation in the World Exposition Shanghai 2010 (Expo 2010) (June 2012);
- Internal Audit of the Canadian Heritage Information Network (October 2012); and

-
- Internal Audit of the Canada Media Fund (March 2013).

There was one recipient audit engagement:

- Toronto 2015 Pan Parapan American Game Organizing Committee Contribution Agreements Recipient Compliance Audit (December 2012).

There were three consulting engagements:

- Budgeting and Forecasting (June 2012);
- PCH Vulnerabilities, A Fraud Risk Management Assessment (March 2013); and
- Systems Under Development Preliminary Baseline Information on Gs & Cs Modernization (March 2013).

2.6.3 Capacity and Performance

At each meeting, the Director, AASD provides a brief overview of the status of the Directorate's work plans and speaks to any risks affecting completion of projects.

The CAEE presented the AASD report on the Internal Audit Workforce to the Committee in June, October and December 2012 and March 2013. The Committee would welcome a more comprehensive reporting mechanism on Internal Audit resources.

Although AASD continues to make efforts to recruit qualified staff, the Committee remains concerned over recruitment and retention. Furthermore, even though AAASD encourages certification of its audit staff, the Committee considers that the current level of certification is not sufficient. A higher level of certification and staff retention would likely result in a higher level of productivity. In addition, this would enable AASD to increase the amount of audit work done by staff, thus reducing reliance on external sources. We also note that there are a high number of staff members on long-term leave.

We understand that efforts are underway to implement a Quality Assurance and Improvement Program (QAIP) designed to assess the audit function. The Committee would welcome regular briefings on the implementation of QAIP.

We acknowledge the stability at the Internal Audit leadership level. We also appreciate that more audit work is performed with internal resources, providing better quality products at a lower cost.

2.7 External Assurance Providers

The OCAEE continues to foster a positive working relationship with the Office of the Comptroller General (OCG), the Treasury Board Secretariat and the Office of the Auditor General (OAG). The Committee believes that the OCAEE is well informed of the activities of both the OCG and the OAG. The Committee also welcomes regular briefings on these relationships.

2.7.1 Working Together

At the June 2012 meeting, the Committee discussed the 2012 amendments to the Policy on Internal Audit and other issues with the Comptroller General of Canada and the Assistant Comptroller General – Internal Audit.

At the October 2012 meeting, the Committee had one of its bi-annual exchanges with the Assistant Auditor General and the OAG Principals. OAG representatives reported on their audit work and the tabling of the annual public accounts as it pertains to PCH. An in-camera meeting was held with the Committee.

At the March 2013 meeting, the OAG presented a report outlining their Annual Audit Plan for the year ending March 2013. An in-camera meeting was held.

At the March meeting, we were also informed that the OAG will be conducting a Strategic Audit Plan on the Department and the Committee looks forward to regular updates.

2.7.2 Status Updates: OCG, OAG and other Assurance Providers

At all meetings, the CAEE and Director of Audit and Assurance provide a status report to the Committee on the audit activities of the OCG and OAG and other assurance providers as they relate to the department.

2.7.3 Follow-up on Management Action Plans from Internal audits

At each of the June 2012, October 2012 and March 2013 meetings the OCAEE briefed members on the results and status of the follow-up report exercise and provided a status update on the implementation of management action plans. The Committee endorsed the removal of all completed recommendations.

Follow-ups are based on the implementation schedule included in the management action plans. Given the rate of implementation progress up to September 2012, the approach was revised from four (4) to two (2) full reviews per fiscal year and formal updates are aligned for reporting with MAF timelines in February and October.

The OCAEE continues to work with management to reduce the number of outstanding recommendations. The Committee is pleased to note that there has

been a significant reduction in the number of outstanding recommendations. Only 10 recommendations remain active at the end of the fiscal year compared to 52 for the prior year.

2.8 Financial Statements and Public Accounts Reporting

During the August 2012 conference call, the Financial Management Branch (FMB) presented the Departmental financial statements dated March 31, 2012 to the Committee. It was noted that the format of the Financial Statements changed as a result of the updated TBAS 1.2 standard set out by the Office of the Comptroller General. The Branch also presented an Annex to the Statement of Management Responsibility for the fiscal year 2011-12, which includes the Assessment of Effectiveness of the Systems of Internal Control over Financial Reporting. These were recommended for Deputy Minister approval with minor changes.

In March 2013, at the request of the Committee, the Financial Management Branch presented the assessment results of the Internal Control activities for the Athletes Assistance Program (AAP) in support of Internal Controls over Financial Reporting.

The Quarterly Financial Reports were reviewed by members.

2.9 Accountability Reporting

At the October 2012 meeting, the Strategic Policy, Planning and Research Branch briefed members on the state of the *Departmental Performance Report* (DPR) as a follow up to the September 11, 2012 teleconference wherein the Committee provided feedback and suggested adjustments.

At the March 2013 meeting The Strategic Policy, Planning and Research Branch updated the Committee on the state of the *Report on Plans and Priorities* (RPP) following the teleconference held on February 22, 2013 wherein the Committee provided feedback.

The *Departmental Performance Report* and the *Report on Plans and Priorities* were provided to the Committee members upon tabling to Parliament.

We were pleased to provide more extensive review of the DPR and the RPP and trust that our comments were helpful.

3.0 DAC Self-Assessment

The Committee completed its annual self-assessment which included input from ex-officio members. In general, the results continue to be very positive and ex-officio members appreciate the contribution of DAC members. However, some ex-officio members argue that the number of meetings be reduced given the Departmental workload. The Committee questions if it can meet its mandate through fewer meetings.

4.0 Looking Ahead

The Committee composition will change significantly with the appointment of the new chair, Mr. Leonard Edwards at the June 2013 meeting. We look forward to a productive working relationship with Mr. Edwards.

There are several issues that the DAC would like to address in the coming year:

- Monitoring of the implementation of the Grants & Contribution Modernization Initiative and the expected efficiency gains;
- Integration of certain National Capital Commission activities with the Department;
- More thorough review of recipient audits;
- More thorough review of IT infrastructure and strategy;
- Ongoing monitoring of the impacts of DRAP and the Long Term Financial Strategy;
- Understanding the role and impact of shared services within the Department and across government;
- Ensuring sufficient risk-based Internal Audit coverage of the Departmental Audit Universe; and
- Monitoring the implementation of the Internal Audit Quality Assurance and Improvement Program.

APPENDIX A: Membership and Operations of the Committee

Background

This is the fifth annual report of the Departmental Audit Committee (DAC) for the Department of Canadian Heritage (PCH).

The Committee is an essential part of the governance and audit requirements established by the Treasury Board of Canada's (TB) *Policy on Internal Audit*. The Committee's purpose is to provide objective advice and recommendations to the Deputy Minister regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the Department's risk management, control and governance frameworks and processes. The Committee exercises oversight of core areas of Departmental control and accountability, in an integrated and systematic way.

Management is responsible for establishing and maintaining internal controls over financial and material assets of the Department and for ensuring, through good governance and strategic direction, the achievement of the Department's mandate and objectives. The DAC assists management in pursuing these tasks and responsibilities.

Committee Membership

The Committee consists of three external members who were selected according to their competence, knowledge and experience. The Chair of the Committee is Donald J. Savoie, Canada Research Chair in Public Administration and Governance at the Université de Moncton and the members are Nola Buhr, Professor of Accounting at the Edwards School of Business, University of Saskatchewan and Robert Martin, from Montreal, a consultant in financial management and business development. At each meeting, DAC members are invited to declare if they have any real or perceived conflict of interest. No such conflict was ever declared.

The Deputy Minister, the Associate Deputy Minister, the Chief Financial Officer (CFO) and Chief Audit and Evaluation Executive (CAEE) attend DAC meetings. The Chair may request the attendance of other departmental officials as required. Senior representatives of the Office of the Auditor General (OAG) attend DAC meetings twice a year to discuss OAG plans, findings and other matters of mutual interest. The Assistant Comptroller General as well as the Comptroller General attend DAC meetings once a year.

The Committee regularly holds in-camera meetings with the Deputy Minister and Associate Deputy Minister, the CFO, the CAEE as well as OCG and OAG representatives.

DAC Terms of Reference

The *Canadian Heritage Departmental Audit Committee Terms of Reference* provides guidance on the Committee's membership, operations, responsibilities and reporting requirements. The DAC Terms of Reference were reviewed and updated during 2012-2013 with the final version tabled and approved at the October 2013 meeting.

Other Committee Business

The Committee reviews its workplan at every meeting. All Committee members participate in the writing of the DAC annual report and the Committee tabled its annual report for 2011-12 in October 2012.

One of the Committee members attended the annual DAC Symposium in November 2012 and provided a briefing at the following Committee meeting.

The Committee received updates and briefings on the following topics:

OCAEE Information Sessions:

- Tabling of the CAEE Annual Report (June 2012).
- Evaluation Activities Status Reports (June, October and December 2012, March 2013). The CAEE supported by the Director of Evaluation provides an overview of the status of evaluation projects including potential impacts, developments and challenges. The DAC indicates continued interest in receiving relevant evaluation reports for information.
- Update on ATIP requests for internal audit is a standing agenda item.
- The CAEE and Director, AASD briefed the Committee on the Branch's workforce at every meeting.
- The PCH Vulnerabilities, A Fraud Risk Management Assessment report was shared with the Committee at the March 2013 meeting. This exercise was useful for the Department in assessing fraud risks and validation controls to prevent, detect and mitigate the impact of fraud on PCH.

CFO Information Sessions:

- DAC received an annual update on Recipient Compliance Audit Activities with all problematic files highlighted in October 2012.
- DAC received three updates on the Grants and Contributions Modernization Initiative in June 2012 and October 2012 and March 2013.
- DAC received an update on CFO Summary Issues at every meeting.

Other Information Sessions:

Furthermore, in addition to the CAEE and CFO information sessions, ad hoc presentations are offered by Senior Management and are requested by the DAC members on an ongoing basis on a variety of topics. For example, in 2012-13 a briefing on the renewal of the Canadian Sport Policy was provided to the Committee.

Financial Information:

In 2012-2013 DAC incurred the following expenses: Honoraria \$92,050 and Operating Expenses of \$20,925

APPENDIX B: Acronyms Used in this Report

AASD	Audit and Assurance Services Directorate
CAEE	Chief Audit and Evaluation Executive
DAC	Departmental Audit Committee
DPR	Departmental Performance Report
FMB	Financial Management Branch
MAF	Management Accountability Framework
OAG	Office of the Auditor General
OCAEE	Office of the Chief Audit and Evaluation Executive
OCG	Office of the Comptroller General
PCH	Patrimoine Canada / Canadian Heritage
RBAP	Risk Based Audit Plan
RPP	Report on Plans and Priorities
TB	Treasury Board
TBS	Treasury Board Secretariat